



## Should You Buy Gold or Bitcoin to Hedge Against a Stock Market Crash?

### Description

Are you getting enticed by rising gold and Bitcoin prices? There is no doubt the two present an opportunity to double your money. But they also hold the potential to reduce your portfolio. If you want to invest here, read about them before jumping into these highly volatile investments.

### Why are gold prices rising?

The world is grappling with the second wave of the pandemic, as the coronavirus has mutated. The mutant virus has once again put a question mark on the magnitude of its impact on the economy. Many European countries have already imposed lockdowns that could extend up to March 2021. Canada has not yet felt the mutant virus attack.

When the first wave of the pandemic struck, many nations imposed lockdowns and gave away billions of dollars in the stimulus package. The central bank is printing money that is reducing the value of the currency. When currency starts losing its value, investors look for safe-haven investments. Gold is one of the oldest safety nets.

However, in a strong economy, gold stocks lose value as currency gains value. Hence, gold is not a good investment if you are thinking from a long-term perspective. The only reason to buy gold stocks is to hedge your portfolio against a market crash. Even Warren Buffett, who despised gold, [bought](#) over US\$550 million worth of **Barrick Gold** stocks in August but sold 40% of these stocks shortly after. The stock has fallen 27% since August, as the economy showed signs of recovery.

### Why are Bitcoin prices rising?

But what is interesting is, investors are now seeing cryptocurrency as a safe haven. Many institutional investors are buying Bitcoin. They see it as a hedge against money printing.

Going by the definition, fiat money is the currency that the government issues and is not backed by a physical commodity like gold or silver. So, they can print any amount of money, as long as they have

the public's confidence. In other words, governments are funding trillions of dollars of the stimulus package from fiat money. Billionaire investor George Soros calls the stimulus cash benefits free money and warns against [the stock market bubble](#). In the April-September period, the stock market rallied, even when the economy collapsed, because these cash benefits increased liquidity in the economy.

Unlike government-issued currencies, only 21 million Bitcoins can ever be created. When there is a limited supply, the value of the product rises, and probably that's the reason Bitcoin is attracting institutional investors. But cryptocurrencies are very risky. They are prone to digital scams, and there are no regulations for digital currency.

Back in 2017, there was a cryptocurrency boom, and not only Bitcoin, but all related stocks, surged to unprecedented levels. But then, Bitcoin crashed 57% in fewer than 50 days. Now, Bitcoin has rallied to a new high of \$30,266, and some hedge fund investors expect it to surpass \$500,000.

## Should you buy gold or Bitcoin?

Both gold and Bitcoin are highly volatile and governed by the market forces of global demand and supply. If you can handle volatility, you can get exposure to Bitcoin for \$31 through the **Bitcoin Fund**. This ETF surged 52% since December 11.

But I would suggest you invest only a small portion of your portfolio in Bitcoin. For instance, if you have \$5,000, invest less than 5% — say, around \$200 — in Bitcoin. Secure the rest of your portfolio from another stock market crash by investing in **Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)).

Enbridge stock has a 25-year history of paying incremental dividends. The stock is currently trading at a 26% discount as the pandemic-induced travel restrictions have reduced oil demand. This has reduced the toll Enbridge collects for transmitting oil through its pipelines. But weakness in oil is partially offset by strength in natural gas.

## Foolish takeaway

A \$4,800 investment in Enbridge will earn you \$386 in dividend income. Even if your \$200 investment in Bitcoin goes to \$0, your portfolio will be \$186 positive. And if Bitcoin doubles or triples, then you will earn \$200-\$400 over and above the dividend income. Enbridge stock will rally to the pre-pandemic level in two to three years as the economy recovers, representing a capital appreciation of \$1,670.

### CATEGORY

1. Coronavirus
2. Dividend Stocks
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### TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
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